

**Tennessee Executive Residence  
Preservation Foundation**

**For the Year Ended  
December 31, 2003**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 21, 2004

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
and  
Board of Directors  
Tennessee Executive Residence Preservation Foundation  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Executive Residence Preservation Foundation for the year ended December 31, 2003. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
05/021

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Executive Residence Preservation Foundation**  
For the Year Ended December 31, 2003

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the Tennessee Executive Residence Preservation Foundation's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

**Audit Report**  
**Tennessee Executive Residence Preservation Foundation**  
**For the Year Ended December 31, 2003**

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# **Tennessee Executive Residence Preservation Foundation For the Year Ended December 31, 2003**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Executive Residence Preservation Foundation. The audit was performed at the request of the chairperson of the board of directors for the foundation.

### **LEGISLATIVE HISTORY**

The Tennessee Executive Residence Preservation Foundation, as created by Tennessee Public Act of 1999, Chapter 212, is a not-for-profit organization that was incorporated on December 5, 2000. The purpose of the foundation is to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art, and other articles which are of Tennessee origin or of particular historic or artistic interest to the citizens of Tennessee, or which are otherwise needed to furnish and to permanently enhance the interior decor of the public reception and formal entertainment areas within the Tennessee executive residence.

### **ORGANIZATION**

The Tennessee Executive Residence Preservation Foundation is governed by a seven-member board of directors. The board of directors consists of the Governor's spouse, or designee if the Governor is not married; three members, one from each grand division of the state, appointed by the Governor; the chair of the Tennessee State Museum Foundation Board; and two additional members, selected by the Governor from the membership of the Tennessee State Museum Foundation Board.

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## **AUDIT SCOPE**

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The audit was limited to the period January 1, 2003, through December 31, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended December 31, 2003.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the Tennessee Executive Residence Preservation Foundation's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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## PRIOR AUDIT FINDINGS

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This is the first audit of the Tennessee Executive Residence Preservation Foundation.

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## OBSERVATIONS AND COMMENTS

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During the audit, two legal issues were encountered that need to be resolved by the board of directors.

1. In 1999, the legislature amended the law regarding the Tennessee Executive Residence Preservation Foundation to create a new board of directors and to strip the existing board of directors of any duties or responsibilities related to the executive residence. In addition, the new law required that the funds held by the original foundation were to be transferred to the control of the new board.

Section 4-23-103(e), *Tennessee Code Annotated*, states that "the foundation established pursuant to Acts 1974, ch. 443, shall no longer have any duties or responsibilities with regard to the executive residence." Section 4-23-103(d) states that "all funds held by the foundation established pursuant to Acts 1974, ch. 443, on May 19, 1999, shall be transferred to the control of the board of directors established pursuant to this section."

As of November 30, 2004, these funds had not been transferred to the control of the new board. The current board of directors has started the process of getting the funds transferred to their control. However, it has come to our attention that the transfer

requirement in the 1999 amendment may be constitutionally suspect. The board should seek formal clarification from the Attorney General's office regarding the ability of the board to comply with the statute. If the statute is deemed to be unconstitutional, the board should seek to repeal the statute. If the statute is enforceable, the board should continue their efforts to get the funds transferred.

2. Expenditures for the renovation of the executive residence do not appear to be in compliance with the powers of the foundation as set forth in *Tennessee Code Annotated*. In addition, the purpose included in the foundation's charter includes additional powers that are not set forth in *Tennessee Code Annotated*.

Section 4-23-101 states:

The Tennessee Executive Residence Preservation Foundation is authorized to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art and other articles which are of Tennessee origin or of particular historic or artistic interest to the citizens of Tennessee, or which are otherwise needed to furnish and to permanently enhance the interior decor of the public reception and formal entertainment areas within the Tennessee executive residence.

The foundation's charter includes the language of *Tennessee Code Annotated* in the purpose in addition to the following language:

The purpose of the Corporation shall be to exercise such enumerated powers and otherwise to provide for the preservation, protection, maintenance and enhancement of the artistic, historic and architectural value of the public and formal areas of the Tennessee Executive Residence by all reasonable means. In addition, should Tennessee Code Annotated § 4-23-101, *et seq.*, be amended so as to provide for additional legitimate purposes of the Corporation enumerated therein, those purposes shall be incorporated herein by reference.

The board of directors, through advisement of legal counsel, should consider proposing an amendment to *Tennessee Code Annotated* to include the additional areas mentioned in the charter as well as to ensure the current, as well as any future, preservation, renovation, or enhancement of the executive residence is covered.



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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the Tennessee Executive Residence Preservation Foundation's financial statements for the year ended December 31, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

There were no provisions of laws, regulations, or contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee Executive Residence Preservation Foundation.



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COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

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**Independent Auditor's Report**

October 6, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of financial position of the Tennessee Executive Residence Preservation Foundation as of December 31, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Tennessee Executive Residence Preservation Foundation's board of directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Executive Residence Preservation Foundation, as of December 31, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

Arthur A. Hayes, Jr., CPA  
Director

AAH/mb

Tennessee Executive Residence Preservation Foundation  
Statement of Financial Position  
December 31, 2003

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Assets:

Current assets:

Cash in bank \$ 337,608.20

Cash on hand 40,293.49

Total current assets 377,901.69

Total assets \$ 377,901.69

Liabilities and net assets:

Net assets:

Unrestricted \$ 377,901.69

Total net assets 377,901.69

Total liabilities and net assets \$ 377,901.69

The notes to the financial statements are an integral part of this statement.

Tennessee Executive Residence Preservation Foundation  
Statement of Activities  
For the Year Ended December 31, 2003

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Changes in unrestricted net assets:	
Revenues and gains:	
Contributions:	
Bredeson Inaugural Committee	\$ 785,273.49
Kentucky	50.00
Knoxville/East TN	260.00
Memphis/West TN	550.00
Nashville/Middle TN	4,461.00
Total contributions	<u>790,594.49</u>
Total revenues and gains	<u>790,594.49</u>
Expenses and losses:	
Management and general:	
Bank service charges	25.00
Fees and licenses	50.00
Total management and general	<u>75.00</u>
Restoration:	
Architectural	22,736.80
Roof	389,881.00
Total restoration	<u>412,617.80</u>
Total expenses and losses	<u>412,692.80</u>
Change in net assets	377,901.69
Net assets at beginning of year	-
Net assets at end of year	<u><u>\$ 377,901.69</u></u>

The notes to the financial statements are an integral part of this statement.

Tennessee Executive Residence Preservation Foundation  
Statement of Cash Flows  
For the Year Ended December 31, 2003

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Cash flows from operating activities:	
Cash received from contributions	\$ 790,594.49
Cash paid to contractors	(412,617.80)
Cash paid to bank	(75.00)
Net cash received from operating activities	<u>377,901.69</u>
Net increase in cash	377,901.69
Cash at beginning of year	-
Cash at end of year	<u><u>\$ 377,901.69</u></u>
Reconciliation of change in net assets to net cash used by operating activities:	
Change in net assets	\$ 377,901.69
Net cash received from operating activities	<u><u>\$ 377,901.69</u></u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Executive Residence Preservation Foundation**  
**Notes to the Financial Statements**  
**December 31, 2003**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Tennessee Executive Residence Preservation Foundation, as created by Tennessee Public Act of 1999, Chapter 212, is a not-for-profit organization that was incorporated on December 5, 2000. The purpose of the foundation is to purchase, receive through loan, or otherwise acquire or dispose of furnishings, fixtures, works of art, and other articles which are of Tennessee origin or of particular historic or artistic interest to the citizens of Tennessee, or which are otherwise needed to furnish and to permanently enhance the interior decor of the public reception and formal entertainment areas within the Tennessee executive residence.

The Tennessee Executive Residence Preservation Foundation is governed by a seven-member board of directors. The board of directors consists of the Governor's spouse, or designee if the Governor is not married; three members, one from each grand division of the state, appointed by the Governor; the chair of the Tennessee State Museum Foundation Board; and two additional members, selected by the Governor from the membership of the Tennessee State Museum Foundation Board.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. The foundation follows all applicable FASB pronouncements.

**Measurement Focus and Basis of Accounting**

The accompanying financial statements of the Tennessee Executive Residence Preservation Foundation have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

**B. OTHER ACCOUNTING DISCLOSURES**

**Cash**

Cash consists of demand deposits and savings deposits in banks.

**Tennessee Executive Residence Preservation Foundation**  
**Notes to the Financial Statements (Cont.)**  
**December 31, 2003**

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**C. CONTRIBUTIONS**

The foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a more limited use than the purpose for which the foundation as a whole was established. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As of December 31, 2003, all of the foundation's net assets were considered unrestricted.